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ANNUAL REPORT

for the fiscal year ended March 31

1966

UNION GAS COMPANY OF CANADA, LIMITED



Your Company continued to extend its natural gas transmission facilities during the year. Here, a construction crew installs a section of 34-inch diameter pipeline across the Thames river, north-east of London, Ontario. Pipe is weighted with heavy concrete collars to keep it anchored in the river bottom.



UNION GAS COMPANY OF CANADA, LIMITED

and its subsidiaries

CONSOLIDATED COMPARATIVE HIGHLIGHTS

Fiscal years ended March 31

	1966	1965	1964
Net profit for the year	\$ 7,665,602	\$ 6,564,928	\$ 5,267,727
Dividends paid on preference shares	\$ 1,087,500	\$ 948,801	\$ 737,500
Earnings applicable to common shares	\$ 6,578,102	\$ 5,616,127	\$ 4,530,227
Earnings per common share outstanding at year end	\$ 1.32	\$ 1.13	\$ 1.00
Dividends declared on common shares:			
Total	\$ 3,489,490	\$ 3,047,639	\$ 2,719,083
Per share	\$.70	\$.62½	\$.60
Natural gas sales *M.C.F.	72,116,044	61,833,091	52,868,093
Gross revenue from gas sales	\$ 66,972,790	\$ 59,037,639	\$ 50,834,072
Total customers at year end	282,592	272,197	261,154
Average gas use per customer *M.C.F.:			
Residential	124.1	120.0	110.2
Commercial	462.7	415.8	365.0
Maximum day send-out *M.C.F.	677,355	628,500	526,357
Gross Property Account at year end	\$198,552,021	\$181,513,021	\$161,847,643
Common shareholders' equity:			
Total	\$ 58,345,290	\$ 55,256,678	\$ 45,419,435
Per share	\$ 11.70	\$ 11.08	\$ 10.02

*Note: M.C.F. means Thousand Cubic Feet

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Cover: Artist's conception of the new Union Gas Head Office at Chatham, Ontario. For further particulars, see pages 20, 21.

UNION GAS COMPANY OF CANADA, LIMITED

Head Office, Chatham, Ontario

The Company and its subsidiaries are engaged in purchasing, producing, storing, transmitting and distributing natural gas in numerous municipalities in southwestern Ontario.

SUBSIDIARY COMPANIES

United Fuel Investments, Limited: (in liquidation)

A holding company owning all of the outstanding shares of United Gas Limited, which is the distributor of

natural gas in the city of Hamilton, the towns of Oakville, Burlington, Dundas, Milton, Georgetown and Acton and areas adjacent to these municipalities.

The outstanding capital stock of United Fuel Investments, Limited consists of 90,000 common shares of no par value, 89,907 of which shares are owned by Union Gas Company of Canada, Limited.

For information on the current status of United Fuel Investments, Limited see page 18.

CAPITAL STOCK

Preference Shares 5½% Series A	Preference Shares 6% Series B Preference Shares 5% Series C	Common Shares
<i>Transfer Agents</i> Canada Permanent Trust Company Toronto, Montreal, Winnipeg, Vancouver	<i>Transfer Agents</i> Eastern & Chartered Trust Company Series B: Toronto and Montreal Series C: Toronto, Montreal and Winnipeg	<i>Transfer Agents</i> Canada Permanent Trust Company 253 Bay Street, Toronto 1, Ontario The Chase Manhattan Bank 1 Chase Manhattan Plaza, New York, N.Y. 10015
<i>Registrars</i> Canada Permanent Trust Company Toronto, Montreal, Winnipeg, Vancouver	<i>Registrars</i> Eastern & Chartered Trust Company Series B: Toronto and Montreal Series C: Toronto, Montreal and Winnipeg	<i>Registrars</i> Crown Trust Company 320 Bay Street, Toronto 1, Ontario Chemical Bank New York Trust Company 20 Pine Street, New York, N.Y. 10015
<i>Dividend Disbursing Agents</i> Canada Permanent Trust Company 253 Bay Street, Toronto 1, Ontario	<i>Dividend Disbursing Agents</i> Eastern & Chartered Trust Company 1901 Yonge Street, Toronto 7, Ontario	<i>Dividend Disbursing Agents</i> Canada Permanent Trust Company 253 Bay Street, Toronto 1, Ontario

FUNDED DEBT

First Mortgage Bonds	1963 and 1965 Series Debentures	Debentures other than 1963 and 1965 Series
<i>Trustee</i> Canada Permanent Trust Company 253 Bay Street, Toronto 1, Ontario	<i>Trustee</i> Eastern & Chartered Trust Company 1901 Yonge Street, Toronto 7, Ontario	<i>Trustee</i> Canada Permanent Trust Company 253 Bay Street, Toronto 1, Ontario

UNION GAS COMPANY OF CANADA, LIMITED

BOARD OF DIRECTORS

Sidney M. Blair

Vice-Chairman of the Board, Canadian Bechtel Limited, Toronto.

W. L. Duffield

Chairman, London District Advisory Committee, Union Gas Company of Canada, Limited, London.

C. Malim Harding, O.B.E.

President, Harding Carpets Limited, Brantford.

H. B. Keenleyside, C.B.E.

Company Director, Toronto.

J. W. S. McOuat

Secretary, Union Gas Company of Canada, Limited, Chatham.

R. L. O'Brian

Investment Banker, Buffalo, N.Y.

F. R. Palin, F.C.A.

President and General Manager, Union Gas Company of Canada, Limited, Chatham.

David P. Rogers

Chairman of the Board, Union Gas Company of Canada, Limited, Toronto.

Rhys M. Sale, LL.D., D.Sc.

Director, Ford Motor Company of Canada, Limited, Oakville.

Laurence M. Savage

Company Director, Galt.

W. Dent Smith, LL.D.

Chairman of the Board, Terminal Warehouses Limited, Toronto.

Ron W. Todgham

President, Chrysler Canada Limited, Windsor.

T. Weir, M.C., E.D., F.C.A.

Retired, formerly Vice-President and General Manager, Union Gas Company of Canada, Limited, Chatham.

PRINCIPAL OFFICERS

David P. Rogers, *Chairman of the Board*

R. L. O'Brian, *Vice-Chairman of the Board*

F. R. Palin, F.C.A., *President and General Manager*

G. H. D. Martin, P.Eng., *Vice-President, Operations*

G. M. Douglas, *Vice-President, Sales*

W. G. Stewart, C.A., *Treasurer*

J. W. S. McOuat, *Secretary*

G. E. Miller, C.A., *Comptroller*

LONDON DISTRICT ADVISORY COMMITTEE

W. L. Duffield, *Chairman*

J. Innes Carling, O.B.E.

P. A. DuMoulin

H. K. Ingram, V.D.

J. H. Stevens

High-rise apartments have become an important factor in the commercial heating market in recent years. Consequently, your Company is devoting considerable attention to increasing its share of this business.



LETTER TO THE SHAREHOLDERS

It is a pleasure to inform you that the fiscal year ended March 31, 1966 was another period of substantial growth for your Company in which the number of customers served, volume and value of gas sales and net profit from operations all reached the highest level in the history of the Company. This reflects a continuance of the progress achieved during each of the past several years.

Consolidated net profit for the fiscal year ended March 31, 1966 was \$7,665,602. After payment of preference share dividends of \$1,087,500, earnings applicable to common shares were \$6,578,102, equivalent to \$1.32 per common share outstanding at year end. For the prior fiscal year, when preference share dividends were \$948,801, earnings applicable to common shares were \$5,616,127, equivalent to \$1.13 per common share.

In calculating the amount of income taxes payable for the fiscal year ended March 31, 1966, the Company continued the practice of claiming maximum depreciation allowances permitted by the taxing authorities, while in its accounts depreciation provision has been based on the lower rates recommended by the Company's consulting engineers. As a result, income taxes payable for the fiscal year ended March 31, 1966 will be \$2,127,000 less than the total income taxes charged against operations (1965, \$2,102,000 less). This reduction in taxes payable, as compared with the amount charged against operations, is included in the total of \$13,713,000 carried in the balance sheet as accumulated income tax reductions applicable to future years. Some companies adopt the practice of reflecting in current income the amount of this tax reduction applicable to future years and, accordingly, increase stated net profit for the year. Had your Company adopted this latter practice, earnings per common share for the fiscal year ended March 31, 1966 would have been \$.43 higher, or \$1.75 per share, and for the previous fiscal year \$.42 higher, or \$1.55 per share.

Average temperatures prevailing throughout the service area during the heating season of the fiscal year ended March 31, 1966 were approximately normal as compared with temperatures of some 2% colder than normal during the 1965 fiscal year. The effect of this slightly less favourable weather on the volume of gas sales, however, was more than offset by an increase of 10,395 in the number of customers on the lines at the year end, including the attachment to the lines of a substantial number of commercial customers requiring relatively large volumes of gas, and by further increase in industrial activity. As a result, the volume of gas sold during the fiscal year ended March 31, 1966 of 72.1 billion cubic feet was 10.3 billion

cubic feet, or 16.6%, greater than for the 1965 fiscal year, with gross revenues of \$67.0 million from such sales being 13.4% more than for the prior year.

The expansion of the Company's plant facilities, the handling of larger volumes of gas, the need to meet the promotional activities of competition and the effect of steadily increasing gas, labour and material costs are all reflected in the higher costs of running the business. Management is fully aware of the need to take all reasonable steps to minimize the increase in costs, while at the same time maintaining efficient operations, in order that the profit improvement trend of the past several years may be continued through controlled operating costs as well as increased volume of sales.

The Consolidated Comparative Highlights at page 1 of this Report show in comparison with the two previous fiscal years certain items of importance pertaining to the fiscal year ended March 31, 1966. For more complete details on the affairs of your Company, we refer you to the accompanying Review and the supporting consolidated financial statements and statistical data. A System Map appears on the inside back cover.

The Company continues to receive the major portion of its gas requirements through the facilities of Trans-Canada Pipe Lines Limited from western Canada, some 67% of total receipts of gas on its own account during the 1966 fiscal year coming from this source. Trans-Canada is currently endeavouring to obtain the required governmental permits to enable it, through facilities projected to be constructed in the United States by a pipeline company owned jointly by Trans-Canada and American Natural Gas Company, to transport substantial additional volumes of western Canada natural gas to eastern Canada, including the territory served by Union Gas Company. Your Company is supporting Trans-Canada's efforts to obtain the required authorities to carry out this proposal and has entered into contracts to purchase additional large volumes of gas from Trans-Canada contingent upon construction of the required facilities.

The expansion in general industrial and commercial activity which has been prevalent in recent years continued through the 1966 fiscal year and present indications are that the economy of the Company's service area will continue to improve at a very satisfactory rate. Many enquiries continue to be received from existing industrial establishments for increased volumes of gas and from new industries establishing or planning to locate in the Company's service area as to availability of gas service.

Expenditures on Property Account additions, exten-

sions and renewals during the 1966 fiscal year totalled some \$18.5 million. The construction of an additional 30 miles of 34-inch diameter pipeline in the program to install an additional main transmission line from the Lambton County gas storage area to Oakville, a distance of 142 miles, was the major construction item completed in the year. Substantial sums also were expended on extending and improving gas distribution facilities in existing markets. Construction of the new Head Office building at Chatham is virtually complete with official opening ceremonies to take place in June.

It is anticipated that during the fiscal year commenced April 1, 1966 a total of \$15 million will be expended on Property Account. The largest single project to be carried out will be the construction of a transmission line north from Durham to Owen Sound to make additional volumes of gas available to meet the steadily increasing requests from that area. Further extensions and improvements will also be made to expand the service in existing markets.

The Minister of Finance has announced that effective from January 1, 1966, 95% of the federal income tax collected from investor owned electric, gas and steam companies on their sales to the public would be paid over by the federal government to the provinces in which the tax was levied. Union Gas has stated that to the extent that the provincial government, in turn, rebates such tax revenue to this Company, the full amount thereof will accrue to its customers through reduction in rates. The fairness of such procedure is quite apparent in light of the fact that the bills of users of electricity in Ontario contain no element of income tax.

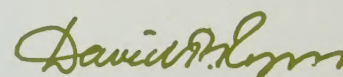
The annual meeting of shareholders, which will be held in Chatham, Ontario, on Friday, June 17, 1966 is also being called as a special general meeting to consider and, if thought fit, confirm a special resolution which has been passed by the Board of Directors authorizing an application for Supplementary Letters Patent subdividing each authorized common share of the Company on a three for one basis and increasing the authorized capital by creating an additional 4,000,000 common shares without par value. While there are no current plans for the sale of additional common shares, the Directors consider that the authorized capital of the Company should be increased at this time to facilitate the raising of additional equity capital if and as required.

On May 16, 1966 the Board of Directors declared a quarterly dividend of $6\frac{3}{4}$ cents per share on the common shares without par value which will be issued and outstanding if the shareholders at the 1966 annual meeting

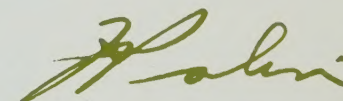
confirm the special resolution referred to above and the requisite Supplementary Letters Patent are issued. This dividend is payable August 1, 1966 to shareholders of record on July 8, 1966 and is equivalent to $20\frac{1}{4}$ cents per share on the common shares currently outstanding. Prior to this declaration the quarterly dividend rate, which had been in effect since May 1, 1965, was $17\frac{1}{2}$ cents per common share. In the event that the shareholders do not confirm the special resolution providing for the subdivision of shares, or if the issuance of Supplementary Letters Patent is delayed, the dividend payable August 1, 1966 will be at the rate of $20\frac{1}{4}$ cents per share on the currently issued and outstanding common shares without par value of the Company.

The Directors are always appreciative of the interest of shareholders in the affairs and progress of the Company as evidenced by their attendance at annual meetings and we sincerely hope that you will be able to attend the meeting on June 17, 1966. If you are unable to be present at the meeting in person we request that you complete promptly the form of proxy being mailed to you concurrently with this Annual Report and return it in the envelope provided, in order that the common shares of this Company registered in your name may be voted at the meeting.

Sincerely,



Chairman of the Board



President and General Manager

Chatham, Ontario, May 16, 1966.

IN REVIEW

the fiscal year ended March 31, 1966

OPERATING RESULTS

The results of the operations of Union Gas Company of Canada, Limited consolidated with those of its subsidiaries, United Fuel Investments, Limited and United Gas Limited, for the fiscal year ended March 31, 1966, as compared with the previous fiscal year, were as follows:

	Fiscal year ended March 31		Increase or decrease (—)
	1966	1965	1966 over 1965
Operating revenue and other income:			
Gross revenue from gas sales	\$66,972,790	\$59,037,639	\$ 7,935,151
Other operating and interest income	5,446,280	5,000,236	446,044
	<u>72,419,070</u>	<u>64,037,875</u>	<u>8,381,195</u>
Operating expenses and interest:			
Operating and maintenance costs exclusive of items shown separately below	45,073,939	38,980,114	6,093,825
Taxes other than income taxes	1,999,671	1,803,563	196,108
Depreciation	5,215,334	4,696,898	518,436
Amortization of natural gas conversion costs	103,200	103,200	—
Interest on bonds, debentures and bank loans and other funded debt charges	4,652,300	4,386,216	266,084
	<u>57,044,444</u>	<u>49,969,991</u>	<u>7,074,453</u>
Operating profit before income taxes	15,374,626	14,067,884	1,306,742
Income taxes	7,708,000	7,273,000	435,000
Net operating profit	<u>7,666,626</u>	<u>6,794,884</u>	<u>871,742</u>
Deduct:			
Net expenses of share issues	—	229,038	(—)229,038
Interest of minority shareholders on a pro rata basis in net profit of United Fuel Investments, Limited . . .	1,024	918	106
	<u>1,024</u>	<u>229,956</u>	<u>(—)228,932</u>
Consolidated net profit for the year	7,665,602	6,564,928	1,100,674
Dividends paid on preference shares	1,087,500	948,801	138,699
Earnings applicable to common shares	<u>\$ 6,578,102</u>	<u>\$ 5,616,127</u>	<u>\$ 961,975</u>
Earnings per common share outstanding at year end . . .	\$ 1.32	\$ 1.13	\$.19
Common share dividends declared:			
Total amount	\$ 3,489,490	\$ 3,047,639	\$ 441,850
Per share	\$.70	\$.62½	\$.07½

REVIEW-CONTINUED

In this report on the combined affairs of Union Gas Company of Canada, Limited and its subsidiaries, United Fuel Investments, Limited and United Gas Limited, reference to "the Company" with respect to the 1966 fiscal year is to those companies on a consolidated basis. When any one of the companies is referred to as a separate entity it is identified as "Union Gas", "United Fuel" and "United Gas" respectively. The years prior to 1966 also include on a consolidated basis Ontario Natural Gas Storage and Pipelines Limited, a former wholly-owned subsidiary of Union Gas, all of the assets and undertaking of which company were acquired by Union Gas as of April 1, 1965.

GAS SALES

Gas sales revenues totalled \$66,972,790 for the 1966 fiscal year, an increase of \$7,935,151, or 13.4%, over the prior year. These revenues reflect the sale of 72.1 billion cubic feet of gas, up 10.3 billion cubic feet, or 16.6%, from the volumes sold in the 1965 fiscal year.

The Company was providing service to 282,592 customers at March 31, 1966, an increase of 10,395 over a year ago, continuing the growth in number of customers at approximately the same rate as has been experienced for the past several years.

The average annual gas consumption per residential customer increased 4.1 M.C.F. to 124.1 M.C.F. and per commercial customer (i.e. apartment buildings, stores,

schools, hospitals, etc.) 46.9 M.C.F. to 462.7 M.C.F. These increases were achieved in spite of the fact that the average temperature in the Company's territory for the heating seasons of the 1966 fiscal year was 2% warmer than for the prior year.

Gas sales to industrial customers again showed a substantial increase, indicating the continued high degree of preference for natural gas by industry in general, as well as reflecting the industrial expansion occurring in southwestern Ontario.

Gas sales by class of customer, showing the proportion of the total for each class and the percentage increase in sales for each class, are summarized below.

GAS SALES VOLUME AND GROSS REVENUE

Class of customers	Volume in thousands of cubic feet			Revenue in dollars		
	Year to March 31, 1966	% of total	% over previous year	Year to March 31, 1966	% of total	% over previous year
Residential.....	30,604,253	42.4	7.2	\$35,002,846	52.3	7.1
Commercial.....	12,322,125	17.1	17.6	12,534,636	18.7	16.4
Industrial.....	27,136,472	37.6	28.9	18,234,406	27.2	25.0
Other gas companies for re-sale.....	2,053,194	2.9	16.5	1,200,902	1.8	18.5
	<u>72,116,044</u>	<u>100.0</u>	<u>16.6</u>	<u>\$66,972,790</u>	<u>100.0</u>	<u>13.4</u>

SALES ACTIVITIES

Gas consumed by residential and commercial customers for space heating represents 75% of total volume of sales to these customers. The Company recognizes the intensive competition in the space heating market and conducts advertising and marketing campaigns designed to emphasize the economy, cleanliness and dependability of gas heat. The success of these campaigns is indicated by the addition during the 1966 fiscal year of some 12,000 heating customers, representing conversions from other fuels as well as installations of gas equipment in newly constructed homes and commercial establishments.

The prime objective of many of the sales promotion programs is to increase the number of appliances using gas throughout the system. To this end present and pros-

pective consumers are encouraged to purchase gas equipment not only from the Company but from their local dealers and installers. These independent organizations benefit from such promotional plans of the Company as co-operative advertising campaigns, the purchase by the Company of conditional sales agreements covering gas appliances sold by independent dealers to their customers, the extension of second mortgages to a proportion of the purchasers of new gas-heated homes built by approved contractors, and the rental of gas water heating and space heating equipment under plans providing for participation with the dealer or installer.

The Company's Industrial Development department actively participates with many municipal industrial

This Chatelaine "Design Home '65", at Burlington, Ontario, features a wide variety of gas applications, including: heating, cooking, water heating, clothes drying, lawn lighting and barbecuing. Gas is also used to heat a sauna bath.

Many of the increasingly popular maisonnette housing developments rely on natural gas service. This one at Windsor, Ontario, for example, uses gas for heating, water heating, clothes drying and incineration.

In the highly competitive residential market, your Company's home service representatives play a key role in helping the homemaker to get the most from her appliances.



They race all winter at Windsor, Ontario. If you're hardy, you can brave the chill winds and watch from the rail; if not, you can relax in the comfortably gas-heated grandstand. Natural gas is also used to prepare the delicious meals served in the raceway's excellent dining room.

In this meter manufacturer's "proving" room—where meters are calibrated and checked for accuracy—temperature and humidity levels must be very closely regulated. Thus, natural gas "climate control" was selected, because it permits the precise adjustment required.



commissions in programs designed to encourage the location or expansion of industries in their areas. An assured supply of natural gas at a price competitive with alternative energy sources is often one of the important factors affecting such decisions.

The strong influence of personal interviews in developing gas sales is emphasized in the Company's promotional programs. Included in the sales force are specialists who assist architects, building contractors, design engineers and manufacturers with the development and improvement of applications involving the use of natural gas. A large number of sales representatives devote full attention to the residential market, calling on customers in their homes at regular intervals. Similarly, skilled personnel are constantly in touch with commercial and industrial customers to assure the proper performance of their gas burning equipment and to maintain a high level of customer satisfaction. University trained home economists conduct classes in schools and auditoriums throughout the territory demonstrating the proper use of the latest models of gas appliances as well as calling on homemakers to assist them in obtaining fullest satisfaction from their gas ranges, clothes dryers, built-in ovens and barbecues.

OTHER OPERATING AND INTEREST INCOME

Other operating and interest income of \$5,446,280 was \$446,044 more than for the previous year, due principally to increased revenue from the transportation of larger volumes of gas for other companies. Increased revenues from the rental of greater numbers of water heating and space heating units and increased interest earned on additional time payment contracts covering appliance sales also contributed to the improvement.

COSTS

Operating and maintenance costs

Costs of gas send-out, together with other operating and maintenance expenses, including costs of storing, transporting, distributing and marketing, totalled \$45,073,939, an increase of \$6,093,825 over the 1965 fiscal year. The increase in cost of gas send-out amounted to \$4,265,572, resulting primarily from the larger volumes of gas sold. However, the average cost per M.C.F. of gas purchased showed a small increase due to the purchase of annual volumes for the first full year under two gas purchase

agreements which became operative during the 1965 fiscal year, both calling for increased prices per M.C.F. as compared with gas being purchased under prior agreements. One agreement is with Panhandle Eastern Pipe Line Company and provides for deliveries of 10.5 billion cubic feet per annum until July 1, 1967 and thereafter at the annual rate of 15.5 billion cubic feet until 1976; the other is with Trans-Canada Pipe Lines Limited covering deliveries of 10 billion cubic feet per annum until 1984.

Other operating and maintenance expenses increased \$1,828,253. Higher wage, salary and employee benefit costs; increased costs of material and supplies; the operation of enlarged Company facilities supplying a greater number of customers, and expenses attributable to a lengthy strike in the Windsor and Sarnia areas all contributed to the increased costs of doing business.

Taxes other than income taxes

The increase in taxes other than income taxes for the 1966 fiscal year of \$196,108 to a total of \$1,999,671 reflects the increase in assessments resulting from property additions and the higher mill rates imposed by a great many of the municipalities served. The construction of 56 miles of 34-inch diameter pipeline in the summer of 1964 and a further 30 miles in the past summer added substantially to the assessments on underground pipeline facilities which represent the major portion of the annual municipal tax costs borne by the Company.

Depreciation and amortization of natural gas conversion costs

The provision for depreciation was determined on the same basis as for the prior year, which is on the service life straight-line method at rates developed by engineering consultants. The depreciation charged to Income for the fiscal year ended March 31, 1966 was \$5,215,334, an increase of \$518,436 over the previous year as the result of the substantial additions to Property Account.

Amortization of natural gas conversion costs in the amount of \$103,200 leaves a balance of \$167,933 to be written off in the future. These costs, incurred several years ago on the conversion of customers' appliances to the use of natural gas in the Hamilton area formerly supplied with manufactured gas, were deferred to be amortized over a period of approximately ten years.

Income taxes

The provision for income taxes for the 1966 fiscal year of \$7,708,000 was greater by \$435,000 than for the previous year due to the higher operating profit.

The estimated income taxes payable for the year are \$5,581,000, or \$2,127,000 lower than the provision shown above, resulting from the Company claiming for income tax purposes amounts for depreciation, amortization and construction overheads in excess of those charged to

Income. The accumulated amount by which income taxes have been so reduced is \$13,713,000 and is shown on the Balance Sheet as "Accumulated income tax reductions applicable to future years". These accumulated tax reductions will be applied in those future periods when the total amount of depreciation and amortization deductible for tax purposes is less than that charged in the Income Statement.

FINANCIAL POSITION

At March 31, 1966 consolidated working capital was \$7,728,086, an increase of \$3,300,321 during the year. The source and application of working capital during the fiscal year ended March 31, 1966 are shown in the following summary:

SOURCE OF WORKING CAPITAL

Net earnings for year as shown on Statement of Income	\$ 7,665,602	
Add back amounts charged to earnings for depreciation and amortization which did not represent a cash outlay	5,721,314	
Portion of liability for income taxes payable which has been deferred to future years	<u>2,127,000</u>	
Total funds provided from operations		\$15,513,916
Gross proceeds from sale by Union Gas of serial and sinking fund debentures, 1965 series		15,000,000
Refund of deposit with trustee for bondholders		778,078
Decrease in other deferred assets, etc.		<u>4,763</u>
Total working capital made available		<u>31,296,757</u>

APPLICATION OF WORKING CAPITAL

Gross expenditures on Property Account additions and replacements, less salvage	18,542,481	
Provisions for sinking funds and serial retirements on outstanding bonds and debentures	3,678,000	
Dividends declared—common shares	3,489,490	
—preference shares	1,087,500	
Advances on mortgages receivable, less repayments	1,075,913	
Debenture issue expenses	<u>123,052</u>	
Resulting in an increase in consolidated working capital during the year of		3,300,321
Consolidated working capital at beginning of year		<u>4,427,765</u>
Consolidated working capital at end of year		<u>\$ 7,728,086</u>

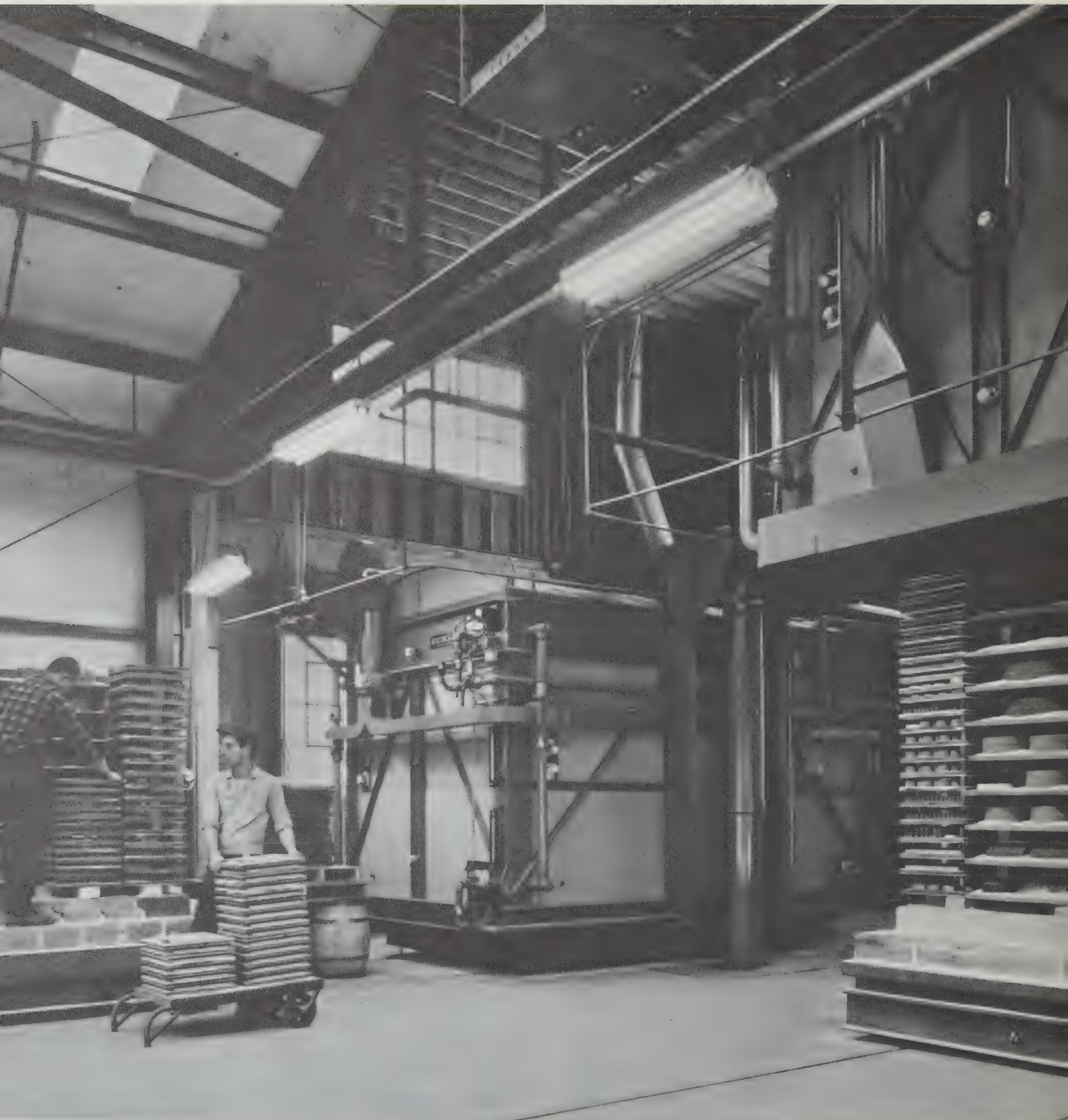
In this striking new, 10-storey office building, completed in downtown Hamilton, Ontario, last October, are housed the Eastern regional offices of Union Gas Company and the headquarters of United Gas Limited.

Also completed last year was a modern business office and service centre at Brantford, Ontario. The spacious sales floor, shown here, is designed to attractively display a wide selection of ranges, dryers and other gas equipment.

Carbon dioxide, produced by natural gas-fueled generators, is being used to enrich the atmosphere in commercial greenhouses, thereby stimulating plant growth impressively. In this way, yields have been commonly increased by as much as 70 per cent.



Precision grinding wheels, in various sizes, are fired to 2,300 degrees F. for several days in these special gas kilns. Kiln housings are raised like elevators to facilitate loading.



PROPERTY ACCOUNT

Net Property Account expenditures totalled \$18,542,481 for the 1966 fiscal year as compared with \$21,103,253 for the previous year. The gross cost of the Company's properties at March 31, 1966, after deducting plant retired from service, was \$198,552,021, a net increase of \$17,039,000 for the year.

In the 1966 fiscal year the major Property Account expenditures were made on (a) distribution facilities to provide gas service to new customers and to meet the expanding requirements of present customers, and (b) the construction of a further 30 miles of 34-inch diameter pipeline as the second step in the program to completely loop the present 26-inch diameter 142-mile high pressure pipeline extending from the Dawn compressor station to the point of connection with the facilities of Trans-Canada Pipe Lines Limited at Oakville, leaving a balance of some 56 miles to be looped in future years.

CAPITALIZATION

In September 1965 the Company borrowed \$15,000,000 through the issue of an additional series of debentures, comprising \$2,000,000 principal amount 5¾% Serial Debentures and \$13,000,000 5⅞% Sinking Fund Debentures.

At March 31, 1966 consolidated capitalization was as follows:

		%
		of total
Common shares	\$ 29,719,621	
Accumulated earnings retained for use in the business	28,247,669	
Contributed surplus	378,000	
	58,345,290	35.5
Preference shares	20,000,000	12.2
	78,345,290	47.7
Funded debt (exclusive of portion to be retired within 12 months and carried on the balance sheet as a current liability)	85,947,000	52.3
Total consolidated capitalization . . .	<u>\$164,292,290</u>	<u>100.0</u>

PERSONNEL

There were 2,004 regular employees on the payroll as of March 31, 1966 compared with 2,024 on the same date

in 1965. Total salaries and wages of all employees during the 1966 fiscal year (including temporary construction labour) amounted to \$12,590,000. This was an increase of \$1,250,000 over the previous year.

Labour negotiations were carried on throughout the greater part of 1965 with four different unions representing the hourly rated employees. Early in November some 210 employees in the Windsor and Sarnia areas represented by the Oil, Chemical and Atomic Workers' International Union began a strike which lasted for 75 days. During this period gas service was maintained to the Company's 82,500 customers in the affected areas through the excellent co-operation and effort of supervisory and other Company personnel. Final agreement was reached through December and January with all unions, with the new collective agreements continuing in force until December 31, 1968. The settlement provides for substantial wage increases to be granted in each successive year of the agreements.

The Company maintains a sound and well rounded program of employee benefits. All plans were reviewed during the year and substantial improvements were made in group life insurance and in disability benefits. The pension plan was revised and modernized, integrating the Company plan with the Canada Pension Plan and providing employees with a higher level of benefits upon retirement. All changes in benefits became effective January 1, 1966.

Additional emphasis has been placed on employee training programs to keep pace with advances in the design of gas equipment and the increasing size of system operations. Safety programs conducted throughout the Company encourage each employee to act safely at all times for his own welfare and that of his fellow employees.

The Company recognizes the need to have well trained and qualified people on its staff in order to keep abreast of the technical changes occurring in the gas industry. In to-day's highly competitive labour market it has become more difficult to attract capable employees. Consequently, in addition to developing and promoting key personnel from within the Company, extensive interviewing and recruiting are carried out at technical institutes and universities in an endeavour to obtain potential candidates for senior supervisory and administrative positions in the Company.

GAS STORAGE OPERATIONS

The total capacity of the six underground storage pools currently used is 76.4 billion cubic feet, 47.5 billion cubic feet representing working storage capacity and 28.9 billion cubic feet being required as a cushion to provide efficient operating pressures in the pools. During the 1966 fiscal year the volume injected into storage was a record 28.2 billion cubic feet, while withdrawals totalled 20.1 billion cubic feet including 1.9 billion cubic feet of gas originally in place when a pool was dedicated to storage use. The volume in the storage pools as at March 31, 1966 was 44.1 billion cubic feet.

The underground storage facilities assist in providing assurance to all customers of a dependable supply of gas for their high wintertime heating consumption. The Company has contracted for large volumes of gas from its pipeline suppliers for delivery to storage during the summer months when the requirements for gas from these pipeline suppliers to meet the day to day demands of ultimate consumers are reduced. These arrangements make possible more efficient use of the Company's transmission and compression facilities by utilizing a high degree of their capacities throughout the entire year.

GAS SUPPLY

The total volume of gas purchased during the 1966 fiscal year of 78.5 billion cubic feet was 19.4 billion cubic feet greater than for the previous year. The volume of gas produced from the Company-owned wells remained constant at 3.9 billion cubic feet.

Union Gas has entered into an additional long term purchase contract with Trans-Canada Pipe Lines Limited for volumes of gas to be received at a point adjacent to the Dawn compressor station from the proposed

Great Lakes Gas Transmission Company pipeline projected to extend from Emerson, Manitoba, through the United States to the international boundary on the St. Clair River south of Sarnia, Ontario. This new gas purchase contract is contingent upon completion of the Great Lakes pipeline, has a primary term of 20 years and provides for deliveries of volumes of gas ranging up to a maximum of 54 billion cubic feet per annum in the sixth and subsequent years of operation. Under the terms of a supplemental contract Union Gas is entitled to receive further substantial volumes of gas from Trans-Canada over a 5 year period if the Great Lakes project becomes operative. The Company has actively assisted Trans-Canada in its applications before the regulatory bodies of both Canada and the United States for the necessary permits to construct and operate the requisite facilities. The completion of the proposed new pipeline will provide further stimulus to the growth of the Company by making additional volumes of gas available close to an area of rapid industrial expansion and near the Dawn underground storage facilities.

While the Company continues its policy of offering to enter into agreements for the purchase of marketable volumes of gas discovered within economic distance of its pipelines, new discoveries of gas by independent Ontario producers in recent years have not been sufficient to offset the decline in the rate of production of many of the older wells covered by gas purchase contracts with the Company.

During the fiscal year commenced April 1, 1966 the Company intends to drill a limited number of wells as part of a continuing program to discover further gas reserves and potential storage areas. The extent of this program will depend upon the results being obtained.

GAS PURCHASED AND PRODUCED

	Volumes in thousands of cubic feet			
	Year to March 31, 1966	% of total	Year to March 31, 1965	% of total
Gas purchased from:				
Ontario producers	8,258,482	10.0	8,446,415	13.4
Panhandle Eastern	14,768,360	17.9	5,900,516	9.4
Trans-Canada	55,524,410	67.3	44,774,434	71.0
Total purchased	78,551,252	95.2	59,121,365	93.8
Gas produced from Company wells	3,957,159	4.8	3,882,108	6.2
Total gas supply*	82,508,411	100.0	63,003,473	100.0

*Excluding gas transmitted and stored for other companies

A major steel producer employs natural gas in this "scarfing" operation, where surface imperfections are removed from a white hot steel slab.



UNITED FUEL INVESTMENTS, LIMITED

It was pointed out in the Annual Report for the fiscal year ended March 31, 1965 that the minority shareholders of United Fuel Investments, Limited had served a Notice of Appeal from the Reasons of the Master of the Supreme Court of Ontario designating the manner in which United Fuel should be wound up; that in his Judgment dated July 14, 1964 a Judge of the Supreme Court of Ontario had denied such appeal; that the minority shareholders then obtained leave to appeal to the Ontario Court of Appeal from the directive of the Master and that Judgment on the appeal was reserved.

In its Judgment delivered August 17, 1965 the Ontario Court of Appeal denied the appeal. An application by the minority shareholders for leave to appeal to the Supreme Court of Canada has been denied by a Judge of that Court.

Pursuant to the directive of the Master of the Supreme Court of Ontario steps now will be taken to have the outstanding common shares of United Gas, all of which are owned by United Fuel, sold at public auction subject to a reserve bid to be fixed by the Master, to permit a pro rata distribution to the holders of the common shares of United Fuel and the completion of the winding up of that company by the liquidator.

The Master recognized that Union Gas is entitled to bid for the shares of United Gas at the auction and when such auction is held that company proposes to so bid.

GENERAL

The Board of Directors authorized Property Account expenditures for the fiscal year commenced April 1, 1966 of approximately \$15 million. The largest single project included in the construction program is a 28-mile pipeline to join Owen Sound and adjacent municipalities with the main system by extending the existing high pressure pipeline north from Durham. (See map inside back cover). It is planned that this new line will be in operation by November, 1966. While the Company does not contemplate extending service into any major new markets during the year, substantial additions and extensions of gas distribution facilities will be made in existing franchise areas to provide gas service to the estimated 10,000 additional customers to be acquired during the year. In addition, the program of renewals and improvements to maintain ample service to customers will be

continued. It is planned that the funds required to carry out this program will be provided from operations and from temporary bank borrowings, pending completion of permanent financing.

As an added incentive measure, on November 19, 1965 the Directors adopted a Stock Option Plan under the terms of which 60,000 of the unissued common shares without par value of the Company are reserved for the granting of options to certain executives and other key employees of the Company and its subsidiaries. On that date options were granted to personnel designated by the Board of Directors to purchase 49,250 common shares at a price of \$31.00 per share, being approximately 95% of the closing bid price on the Toronto Stock Exchange on the previous day. The options granted may be exercised in varying annual percentages of the individual grants (dependent on the remaining service years of the optionee to age 65) commencing in the second year after the granting of the option and terminating not later than the tenth anniversary of the grant.

Mr. Sidney M. Blair, Vice-Chairman and a Director of Canadian Bechtel Limited, was elected to the Board of Directors of Union Gas on June 17, 1965.

With deep sorrow the Board of Directors records the death on July 7, 1965 of Colonel C. M. Kennedy, a member of the Board for 30 years. His advice and counsel will long be remembered.

The Board of Directors is appreciative of the sincere and loyal contribution of the employees whose efforts are reflected in the results achieved during the past year.

Earlier this spring, some 20,000 people converged on Elmira, Ontario (pop. 4,000), for that town's annual Maple Syrup Festival. While there they consumed thousands of pancakes (drenched in maple syrup, of course), prepared on eight gas-fired grills set up on the main street for the occasion.



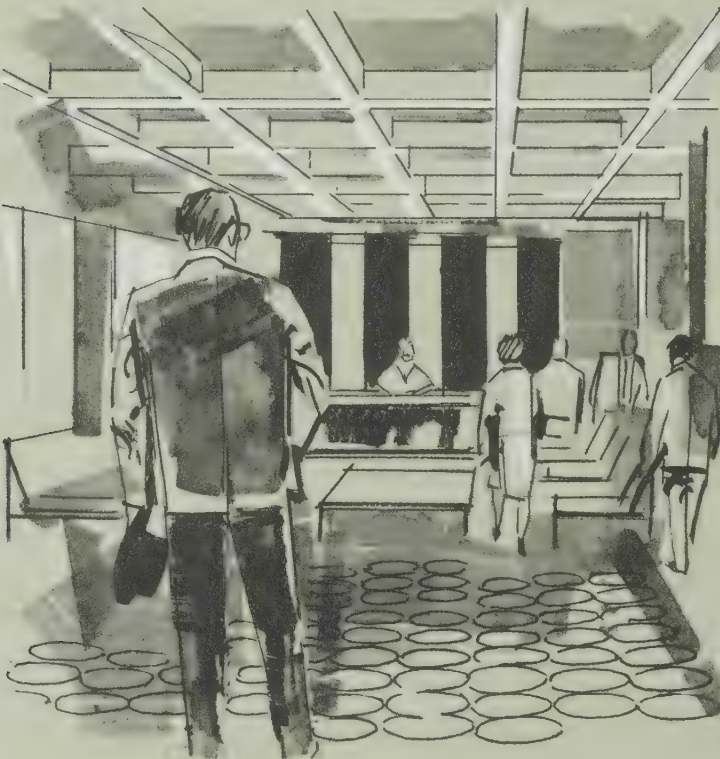


Completion of your Company's new Head Office at Chatham, Ontario, brings all staff departments together "under one roof" for the first time since 1954. During the past few years, for example, our Head Office personnel have been located in five different centres, in various parts of the city.

With all departments now in close proximity to each other, we are looking forward to a general increase in



Modern main entrance



Guest reception



Conference room

efficiency, particularly with respect to the time previously expended in travelling between offices.

Initially, approximately 250 persons will be employed in the new building. They will be accommodated in 20 general office areas and 69 individual offices.

Of the building's many modern features, one of the most interesting is a natural gas-fueled turbine, which generates electricity for the highly-efficient 420-cycle

overhead lighting system. Equally interesting is the fact that the waste heat exhausted by the turbine is used to produce the steam needed to operate the building's heating-air conditioning system.

The main building and the adjacent service buildings contain approximately 85,000 square feet of floor space. This includes provision for additions to staff which can be anticipated as your Company continues to grow.



General office area



Individual office



Special equipment

CONSOLIDATED BALANCE SHEET

March 31, 1966

(With comparative figures as at March 31, 1965)

Union Gas Company of Canada, Limited (Incorporated under the laws of Ontario)
and its subsidiaries, United Fuel Investments, Limited and United Gas Limited

ASSETS	1966	1965
Properties:		
Distribution systems, transmission lines, gas wells and gathering lines, base pressure gas, gas storage facilities, land and buildings, etc.—at cost	\$198,552,021	\$181,513,021
Less accumulated depreciation	34,937,655	30,958,546
	<u>163,614,366</u>	<u>150,554,475</u>
Premiums paid on acquisition of subsidiary companies	1,741,233	1,741,233
	<u>165,355,599</u>	<u>152,295,708</u>
Current assets:		
Cash	1,271,944	2,210,111
Short term investments—at cost which is approximately market value	3,000,000	1,000,000
Accounts receivable	13,967,189	13,832,787
Inventories of merchandise for sale, stores and spare equipment, valued at the lower of cost or market	2,302,549	2,145,845
Prepayments	123,622	118,946
Gas in underground storage, available for current sale—at cost	5,010,032	949,774
	<u>25,675,336</u>	<u>20,257,463</u>
Deferred and other assets:		
Funds on deposit with trustees for bondholders	325,815	1,103,894
Mortgages receivable	3,303,287	2,227,373
Balances to be amortized in future years—		
Natural gas conversion costs	167,933	271,133
Discount and expenses on issues of funded debt	1,062,314	1,070,885
Other deferred charges	69,020	76,660
	<u>4,928,369</u>	<u>4,749,945</u>
 On behalf of the Board:		
 David P. Rogers, <i>Director</i>		
 F. R. Palin, <i>Director</i>		
	<u>\$195,959,304</u>	<u>\$177,303,116</u>

LIABILITIES**1966****1965****Shareholders' equity:****Capital stock (note 1)—**

Preference shares with a par value of \$50 each:

Authorized—400,000 cumulative redeemable shares

Issued	—170,000 5½% Series A	\$ 8,500,000	\$ 8,500,000
	— 90,000 6% Series B	4,500,000	4,500,000
	—140,000 5% Series C	7,000,000	7,000,000

Common shares without par value:

Authorized—6,000,000 shares

Issued	—4,984,985 shares	29,719,621	29,719,621
		<u>49,719,621</u>	<u>49,719,621</u>

Contributed surplus 378,000 378,000

Accumulated earnings retained for use in the business (note 2) 28,247,669 25,159,057

78,345,290 75,256,678**Interest of minority shareholders in United Fuel Investments, Limited,**

a subsidiary company (note 3) 6,764 5,740

Funded debt (note 8) 85,947,000 74,625,000**Accumulated income tax reductions** applicable to future years (note 4) 13,713,000 11,586,000**Current liabilities:**

Bank loan 1,000,000 2,000,000

Accounts payable and accrued charges 6,575,818 5,429,801

Dividend payable 872,372 872,372

Income and other taxes payable 4,886,337 3,428,184

Accrued interest on funded debt 1,020,723 991,341

Funded debt instalments due within twelve months 3,592,000 3,108,000

17,947,250 15,829,698\$195,959,304 \$177,303,116

CONSOLIDATED STATEMENTS

For the year ended March 31, 1966

(With comparative figures for 1965)

Union Gas Company of Canada, Limited and its subsidiaries,
 United Fuel Investments, Limited and United Gas Limited

**CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS
 RETAINED FOR USE IN THE BUSINESS**

	1966	1965
Balance at beginning of year	\$25,159,057	\$22,590,569
Add consolidated net profit for the year	7,665,602	6,564,928
	<u>32,824,659</u>	<u>29,155,497</u>
Deduct dividends declared:		
Preference shares—		
Series A—\$2.75 per share	467,500	467,500
Series B—\$3.00 per share	270,000	270,000
Series C—\$2.50 per share per annum	350,000	211,301
Common shares—		
\$.70 per share in 1966, \$.62½ per share in 1965	3,489,490	3,047,639
	<u>4,576,990</u>	<u>3,996,440</u>
Balance at end of year	<u>\$28,247,669</u>	<u>\$25,159,057</u>

CONSOLIDATED STATEMENT OF INCOME

	1966	1965
Operating revenue and other income:		
Gross revenue from gas sales	\$66,972,790	\$59,037,639
Other operating income	5,365,333	4,903,640
Interest income	80,947	96,596
	<u>72,419,070</u>	<u>64,037,875</u>
Operating expenses and interest:		
Operating and maintenance costs exclusive of items shown separately below	45,073,939	38,980,114
Taxes other than income taxes	1,999,671	1,803,563
Depreciation and amortization of natural gas conversion costs (note 6)	5,318,534	4,800,098
Interest on funded and other debt including discount and expense amortized (less interest charged to construction—\$255,640 in 1966; \$191,301 in 1965)	4,652,300	4,386,216
	<u>57,044,444</u>	<u>49,969,991</u>
Operating profit before income taxes	15,374,626	14,067,884
Income taxes (note 4)	7,708,000	7,273,000
Net operating profit	<u>7,666,626</u>	<u>6,794,884</u>
Deduct:		
Net expenses of share issues	—	229,038
Interest of minority shareholders on a pro rata basis in net profit of United Fuel Investments, Limited	1,024	918
	<u>1,024</u>	<u>229,956</u>
Consolidated net profit for the year	<u>\$ 7,665,602</u>	<u>\$ 6,564,928</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1966

Union Gas Company of Canada, Limited and its subsidiaries, United Fuel Investments, Limited and United Gas Limited

1. Capital stock

(a) During the year, the company adopted a stock option plan for certain executive and other key employees whereby 60,000 of the authorized and unissued common shares without par value in the capital stock of the company were reserved and set aside for issue in accordance with the provisions of the plan. As at March 31, 1966, options had been granted to subscribe for and purchase 49,250 shares at a price of \$31.00 per share. None of these options were exercised prior to March 31, 1966.

(b) The preference shares are redeemable as follows:

Series A—at \$52.00 per share up to March 30, 1968 and thereafter at redemption prices reducing in progressive steps to \$50.50 per share after March 30, 1976.

Series B—at \$55.00 per share at any time.

Series C—at \$52.50 per share up to March 30, 1969 and thereafter at redemption prices reducing in progressive steps to \$50.50 per share after March 30, 1981.

Under the conditions attaching to the Series A and Series C preference shares, the company is committed to purchase shares for cancellation if their market prices fall to par or below as follows:

Series A—in amounts up to \$170,000 annually

Series C—in amounts up to \$140,000 annually

As required by the supplementary letters patent, a special appropriation of retained earnings is shown on the books of the company to reflect this commitment.

2. Accumulated earnings retained for use in the business

The trust deeds and indentures providing for the issue of the company's bonds and debentures contain certain restrictions regarding the amount that may be paid as dividends. At March 31, 1966 accumulated earnings retained for use in the business in the amount of \$7,119,097 were free from limitation under the most stringent of these restrictions.

3. Interest of minority shareholders in United Fuel Investments, Limited

During the year ended March 31, 1964, an order directing that United Fuel Investments, Limited be wound up

under the provisions of the Winding-Up Act of Canada was affirmed in the Supreme Court of Canada. A permanent liquidator was appointed and the Master of the Supreme Court of Ontario was directed to supervise the winding up. An application by the minority shareholders for leave to appeal to the Supreme Court of Canada from a directive of the Master has been denied by a Judge of that Court. Pending the completion of the liquidation of United Fuel, it is not possible to establish the amount that will be received by the minority shareholders. The minority interest at March 31, 1966 of 93 common shares, out of a total of 90,000 outstanding, has been calculated on the basis of the pro rata amount that would be received if book values were realized for the assets of United Fuel.

4. Accumulated income tax reductions

As a result of claiming allowances for tax purposes for depreciation, amortization of natural gas conversion costs and construction overheads in excess of amounts charged in arriving at profit for the year, income taxes payable will be less than the current year's provisions by \$2,127,000 (\$2,102,000 in 1965) and accordingly this amount is included in the balance sheet in the item "Accumulated income tax reductions applicable to future years".

5. Capital expenditures

Capital expenditures of approximately \$15,000,000 have been authorized by the Directors for the fiscal year ending March 31, 1967.

6. Depreciation

Total depreciation and amortization for the year ended March 31, 1966 amounted to \$5,589,690 (\$5,045,783 in 1965). Of this amount, \$5,318,534 was charged directly as an operating expense and the remainder of \$271,156 was allocated partly to other expense accounts and partly to property accounts.

7. Directors' fees

Directors of the companies received fees for their services as such in the amount of \$33,541.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

March 31, 1966

8. Funded debt

Details of this debt as at March 31, 1966 and 1965 are as follows:

	Total outstanding	Deduct instalments due within twelve months, shown as a current liability	Net amount deferred	
			1966	1965
<i>Union Gas Company of Canada, Limited:</i>				
First mortgage and collateral trust bonds—				
4¾% sinking fund bonds, Series A, due March 1, 1968	\$ 2,709,000	—	—	—
Less cash in hands of the trustee for redemptions on April 1, 1966	209,000	—	—	—
	<u>2,500,000</u>	\$ 500,000	\$ 2,000,000	\$ 2,500,000
4¾% serial bonds, Series B, due December 1, 1966-1968	1,350,000	450,000	900,000	1,350,000
5% sinking fund bonds, Series B, due December 1, 1977	9,000,000	153,000	8,847,000	9,000,000
5¼% sinking fund bonds, Series C, due January 15, 1978	15,793,000	793,000	15,000,000	15,800,000
	<u>28,643,000</u>	<u>1,896,000</u>	<u>26,747,000</u>	<u>28,650,000</u>
Debentures—				
5¾% sinking fund debentures, 1957 series, due January 15, 1975	5,950,000	350,000	5,600,000	5,950,000
5% serial debentures, 1958 series, due December 1, 1966-1968	975,000	325,000	650,000	975,000
5½% sinking fund debentures, 1958 series, due December 1, 1977	6,600,000	—	6,600,000	6,600,000
5¾% sinking fund debentures, 1961 series, due July 15, 1981	13,036,000	386,000	12,650,000	13,100,000
5½% serial debentures, 1963 series, due February 15, 1967-1971	2,000,000	400,000	1,600,000	2,000,000
5¾% sinking fund debentures, 1963 series, due August 15, 1983	12,000,000	—	12,000,000	12,000,000
5¾% serial debentures, 1965 series, due March 1, 1969-1973	2,000,000	—	2,000,000	—
5⅞% sinking fund debentures, 1965 series, due September 1, 1985	13,000,000	—	13,000,000	—
	<u>55,561,000</u>	<u>1,461,000</u>	<u>54,100,000</u>	<u>40,625,000</u>
<i>United Gas Limited:</i>				
First mortgage bonds—				
5¼% sinking fund bonds due October 1, 1977	5,335,000	235,000	5,100,000	5,350,000
Total funded debt	<u>\$89,539,000</u>	<u>\$3,592,000</u>	<u>\$85,947,000</u>	<u>\$74,625,000</u>

The 5¼% First Mortgage Sinking Fund Bonds, Series C, were issued by Union Gas in exchange for an equal amount of Ontario Natural Gas Storage and Pipelines

Limited bonds having the same maturity, sinking fund provisions and redemption features, as part of the merger of Union Gas and Ontario Gas Storage at April 1, 1965.

Clarkson, Gordon & Co.

Chartered Accountants

15 Wellington Street West, Toronto 1, Canada

To the Shareholders of Union Gas Company of Canada, Limited:

We have examined the consolidated balance sheet of Union Gas Company of Canada, Limited and its subsidiaries, United Fuel Investments, Limited and United Gas Limited, as at March 31, 1966 and the consolidated statements of income and accumulated earnings retained for use in the business for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and accumulated earnings retained for use in the business present fairly the financial position of the companies as at March 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

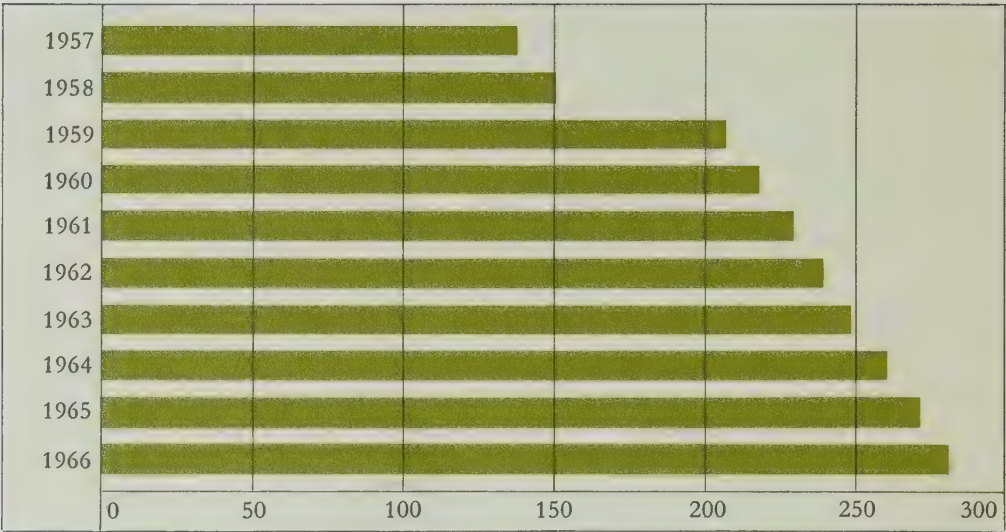
Clarkson, Gordon & Co.

Toronto, Canada, May 11, 1966

Chartered Accountants

NUMBER OF CUSTOMERS SERVED

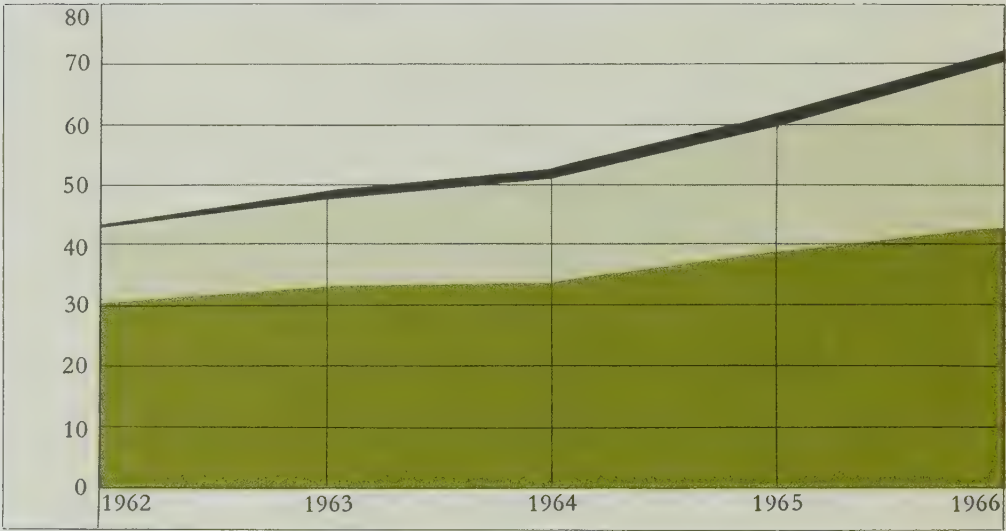
Thousands of customers



ANNUAL VOLUME OF GAS SALES

Billions of cubic feet

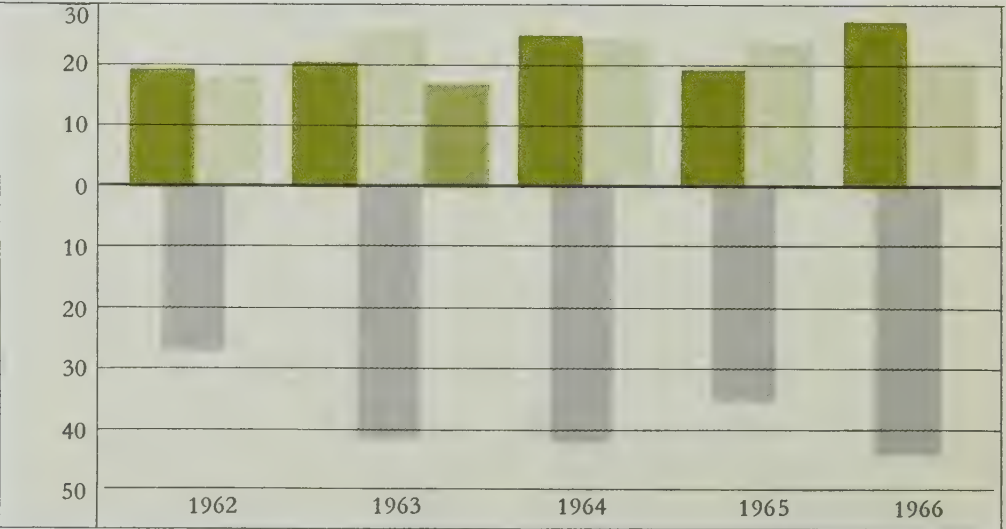
■ To other gas companies
■ Industrial
■ Residential and commercial



GAS STORAGE OPERATIONS

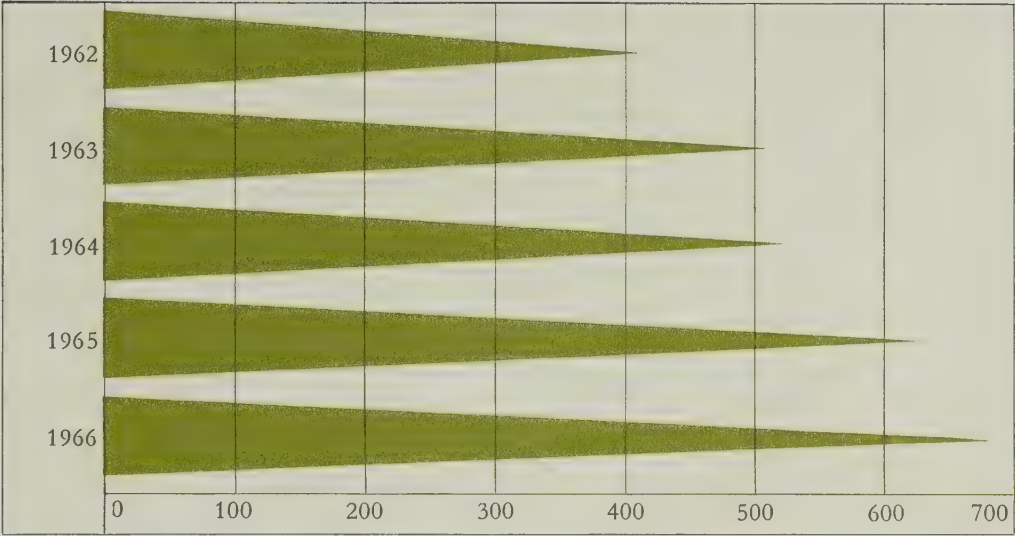
Billions of cubic feet

■ Placed in storage
■ Withdrawn from storage
■ Purchased or residual gas in place
■ Balance in storage end of year



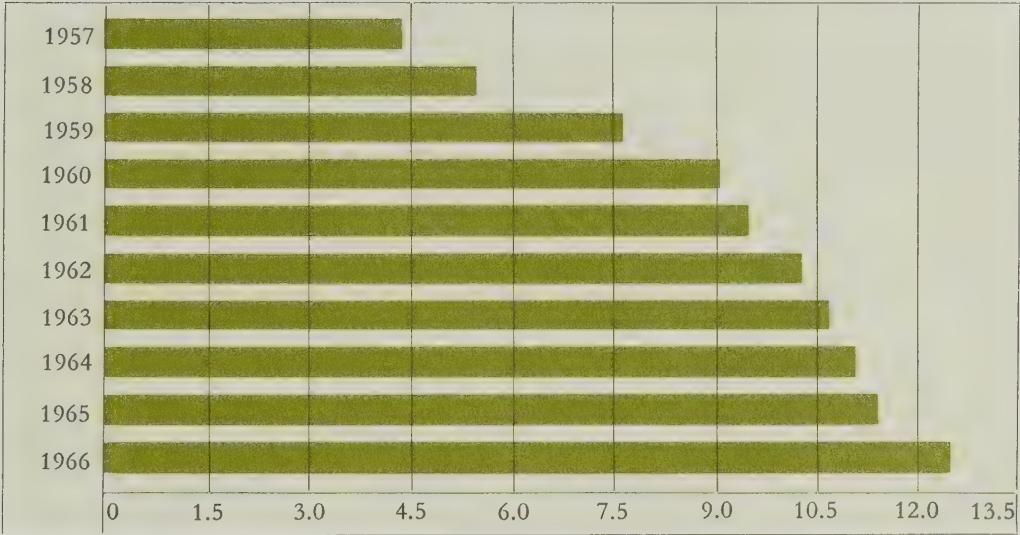
MAXIMUM DAY SEND OUT

Millions of cubic feet



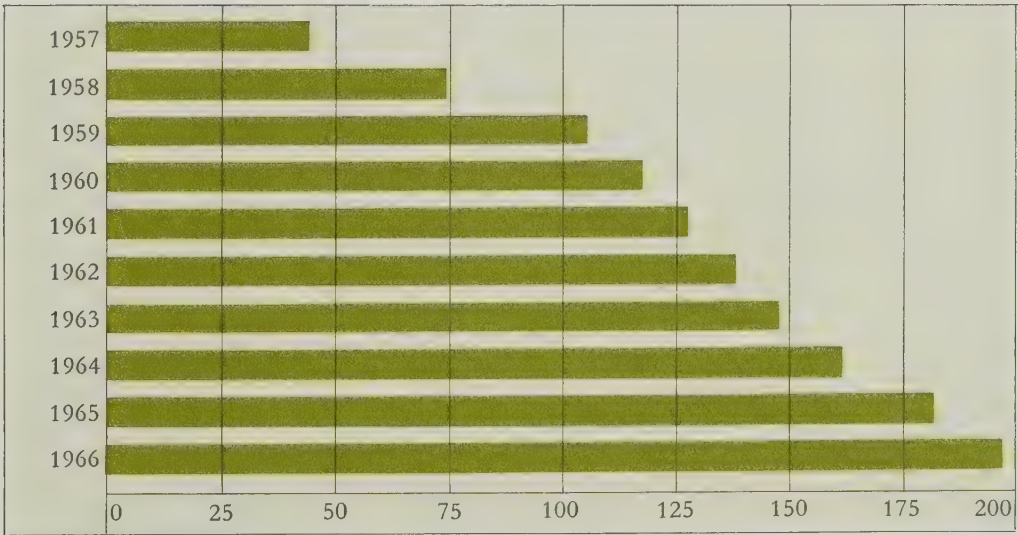
ANNUAL PAYROLL

Millions of dollars



GROSS PROPERTY ACCOUNT

Millions of dollars



FINANCIAL AND OPERATING STATISTICS-1962-1966

Fiscal years ended March 31

Union Gas Company of Canada, Limited and its subsidiaries, United Fuel Investments, Limited and United Gas Limited.

	1966	1965	1964	1963	1962
Revenues, Expenses and Net Earnings (A)					
<i>Revenues:</i>					
Gas sales	\$ 66,972,790	\$ 59,037,639	\$ 50,834,072	\$ 48,613,568	\$ 42,930,596
Other income	5,446,280	5,000,236	4,715,376	3,864,576	3,599,719
Total revenue	<u>72,419,070</u>	<u>64,037,875</u>	<u>55,549,448</u>	<u>52,478,144</u>	<u>46,530,315</u>
<i>Expenses:</i>					
Operating and maintenance costs	47,073,610	41,012,715	36,112,544	33,984,356	29,820,246
Depreciation and amortization of natural gas conversion costs	5,318,534	4,800,098	4,353,987	4,129,552	3,820,988
Interest on funded debt and bank loans	4,652,300	4,386,216	4,276,692	4,079,110	3,704,486
Total expenses	<u>57,044,444</u>	<u>50,199,029</u>	<u>44,743,223</u>	<u>42,193,018</u>	<u>37,345,720</u>
Profit before income taxes	15,374,626	13,838,846	10,806,225	10,285,126	9,184,595
Income taxes	7,708,000	7,273,000	5,531,000	5,299,000	4,692,000
Net earnings before minority interest	7,666,626	6,565,846	5,275,225	4,986,126	4,492,595
Less: Minority shareholders' interest	1,024	918	7,498	42,411	28,621
Net earnings	7,665,602	6,564,928	5,267,727	4,943,715	4,463,974
Preference share dividends	1,087,500	948,801	737,500	737,500	737,500
Net earnings applicable to common shares . .	<u>\$ 6,578,102</u>	<u>\$ 5,616,127</u>	<u>\$ 4,530,227</u>	<u>\$ 4,206,215</u>	<u>\$ 3,726,474</u>
Earnings per common share (B)	\$ 1.32	\$ 1.13	\$ 1.00	\$.93	\$.82
Dividends declared per common share	<u>.70</u>	<u>.62½</u>	<u>.60</u>	<u>.50</u>	<u>.50</u>
Source and Application of Funds					
<i>Source of funds:</i>					
Net earnings for year	\$ 7,665,602	\$ 6,564,928	\$ 5,267,727	\$ 4,943,715	\$ 4,463,974
Depreciation and amortization	5,721,314	5,177,090	4,735,768	4,491,941	4,175,717
Income tax reductions re future years	2,127,000	2,852,000	1,617,000	1,202,000	1,185,300
Funded debt issues	15,000,000	—	14,000,000	—	14,000,000
Common share issue	—	7,268,755	—	—	—
Preference share issue	—	7,000,000	—	—	—
Refund of deposit with trustee for bondholders	778,078	—	—	—	—
Total	<u>\$ 31,291,994</u>	<u>\$ 28,862,773</u>	<u>\$ 25,620,495</u>	<u>\$ 10,637,656</u>	<u>\$ 23,824,991</u>
<i>Application of funds:</i>					
Net expenditure on Property Account	\$ 18,542,481	\$ 21,103,253	\$ 15,655,974	\$ 10,935,614	\$ 13,199,627
Dividends declared—common shares	3,489,490	3,047,639	2,719,083	2,265,878	2,265,878
Dividends declared—preference shares	1,087,500	948,801	737,500	737,500	737,500
Retirement of funded debt	3,678,000	3,125,000	3,175,000	2,418,000	2,332,000
Funded debt issue expense	123,052	—	172,490	—	220,606
Net advances on mortgages receivable	1,075,913	580,143	496,201	226,626	357,842
Redemption of United Fuel preference shares	—	—	865,170	—	—
Miscellaneous items	(-)4,763	387,290	108,165	192,353	65,150
Increase or decrease (-) in working capital	3,300,321	(-)329,353	1,690,912	(-)6,138,315	4,646,388
Total	<u>\$ 31,291,994</u>	<u>\$ 28,862,773</u>	<u>\$ 25,620,495</u>	<u>\$ 10,637,656</u>	<u>\$ 23,824,991</u>
Working capital, end of year	<u>\$ 7,728,086</u>	<u>\$ 4,427,765</u>	<u>\$ 4,757,118</u>	<u>\$ 3,066,206</u>	<u>\$ 9,204,521</u>

Notes: (A) Figures for 1962 and 1963 are adjusted to conform with minor account reclassifications adopted in 1964.

(B) On basis of number of shares outstanding at year end.

STATISTICS-CONTINUED

Fiscal years ended March 31

(M.C.F. means thousand cubic feet)

	1966	1965	1964	1963	1962
Customers — (end of year)					
Residential	252,725	243,661	234,310	223,876	215,732
Commercial	27,405	26,222	24,751	23,438	22,415
Industrial	2,453	2,305	2,084	1,920	1,830
Other utilities	9	9	9	8	6
Total	<u>282,592</u>	<u>272,197</u>	<u>261,154</u>	<u>249,242</u>	<u>239,983</u>
Gas Sales — M.C.F.					
Residential	30,604,253	28,545,692	25,101,125	25,423,992	23,246,981
Commercial	12,322,125	10,476,853	8,728,979	8,205,232	7,246,354
Industrial	27,136,472	21,048,268	17,721,608	15,278,452	11,188,247
Other utilities	2,053,194	1,762,278	1,316,381	1,038,328	740,633
Total	<u>72,116,044</u>	<u>61,833,091</u>	<u>52,868,093</u>	<u>49,946,004</u>	<u>42,422,215</u>
Gas Sales Revenue					
Residential	\$ 35,002,846	\$ 32,669,726	\$ 28,863,627	\$ 28,944,876	\$ 26,633,367
Commercial	12,534,636	10,764,410	9,032,244	8,478,959	7,562,017
Industrial	18,234,406	14,589,874	12,160,839	10,577,135	8,250,374
Other utilities	1,200,902	1,013,629	777,362	612,598	484,838
Total	<u>\$ 66,972,790</u>	<u>\$ 59,037,639</u>	<u>\$ 50,834,072</u>	<u>\$ 48,613,568</u>	<u>\$ 42,930,596</u>
Average Gas Use per Customer — M.C.F.					
Residential	124.1	120.0	110.2	116.2	110.7
Commercial	462.7	415.8	365.0	361.8	331.4
Gas Balance — M.C.F.					
Gas produced from Company wells	3,957,159	3,882,108	4,521,606	(A)5,312,239	4,475,060
Gas purchased:					
Ontario sources	8,258,482	8,446,415	9,701,356	9,978,607	10,255,928
Other sources	70,292,770	50,674,950	42,139,934	32,457,738	28,537,448
Gas received under storage, exchange, etc., contracts, less gas purchased in place	16,689,068	13,712,245	13,518,523	9,550,084	11,454,175
Total all gas	<u>99,197,479</u>	<u>76,715,718</u>	<u>69,881,419</u>	<u>57,298,668</u>	<u>54,722,611</u>
Gas into storage	28,171,182	19,457,311	25,981,740	(B)21,251,681	19,512,973
Gas out of storage	18,233,082	23,892,755	23,172,547	25,763,637	18,581,906
Net gas into or out of (–) storage	9,938,100	(–)4,435,444	2,809,193	(–)4,511,956	931,067
Total gas send-out	<u>89,259,379</u>	<u>81,151,162</u>	<u>67,072,226</u>	<u>61,810,624</u>	<u>53,791,544</u>
Gas sales	72,116,044	61,833,091	52,868,093	49,946,004	42,422,215
Gas delivered under storage, exchange, etc., contracts	14,873,870	16,259,364	11,134,857	9,805,057	10,080,636
Company use	760,983	994,728	662,822	529,508	470,085
Unbilled, unaccounted for, etc.	1,508,482	2,063,979	2,406,454	1,530,055	818,608
	<u>89,259,379</u>	<u>81,151,162</u>	<u>67,072,226</u>	<u>61,810,624</u>	<u>53,791,544</u>
Maximum day send-out—M.C.F.	677,355	628,500	526,357	512,237	412,360
Gas withdrawn from storage on maximum day—M.C.F.	375,110	409,030	386,138	411,324	301,897

Notes: (A) Inclusive of 0.5 billion cubic feet of gas transferred to storage.

(B) Exclusive of 19.0 billion cubic feet of residual gas in an additional pool dedicated to storage operations during the year.

STATISTICS-CONTINUED

Fiscal years ended March 31

The 30-mile, London-Woodstock section of your Company's 34-inch diameter pipeline was placed in service early in 1966, thus greatly increasing natural gas transmission capacity across southwestern Ontario. Here, the "line-up" crew can be seen at work.

	1966	1965	1964	1963	1962
Condensed Consolidated Balance Sheet					
<i>Assets:</i>					
Property Account	\$198,552,021	\$181,513,021	\$161,847,643	\$147,701,789	\$138,534,260
Less accumulated depreciation	34,937,655	30,958,546	27,457,734	24,486,010	22,002,825
	<u>163,614,366</u>	<u>150,554,475</u>	<u>134,389,909</u>	<u>123,215,779</u>	<u>116,531,435</u>
Premium paid on acquisition of subsidiary companies	1,741,233	1,741,233	1,741,233	1,741,233	1,741,233
Current assets	25,675,336	20,257,463	20,483,633	16,173,008	19,774,223
Deferred and other assets	4,928,369	4,749,945	4,019,997	3,524,587	3,313,426
Total	<u>\$195,959,304</u>	<u>\$177,303,116</u>	<u>\$160,634,772</u>	<u>\$144,654,607</u>	<u>\$141,360,317</u>
<i>Liabilities:</i>					
Shareholders' equity—					
Preference shares	\$ 20,000,000	\$ 20,000,000	\$ 13,000,000	\$ 13,000,000	\$ 13,000,000
Common shares	29,719,621	29,719,621	22,450,866	22,450,866	22,450,866
Retained earnings	28,247,669	25,159,057	22,590,569	20,307,350	18,367,013
Contributed surplus	378,000	378,000	378,000	378,000	378,000
Total	<u>78,345,290</u>	<u>75,256,678</u>	<u>58,419,435</u>	<u>56,136,216</u>	<u>54,195,879</u>
Minority shareholders' interest	6,764	5,740	4,822	1,369,589	1,336,736
Funded debt	85,947,000	74,625,000	77,750,000	66,925,000	69,343,000
Accumulated income tax reductions applicable to future years	13,713,000	11,586,000	8,734,000	7,117,000	5,915,000
Current liabilities	17,947,250	15,829,698	15,726,515	13,106,802	10,569,702
Total	<u>\$195,959,304</u>	<u>\$177,303,116</u>	<u>\$160,634,772</u>	<u>\$144,654,607</u>	<u>\$141,360,317</u>
Equity per Common Share					
No par value common shares outstanding	4,984,985	4,984,985	4,531,805	4,531,805	4,531,805
Equity per share	<u>\$ 11.70</u>	<u>\$ 11.08</u>	<u>\$ 10.02</u>	<u>\$ 9.52</u>	<u>\$ 9.09</u>
Property Account					
Gross book value beginning of year	<u>\$181,513,021</u>	<u>\$161,847,643</u>	<u>\$147,701,789</u>	<u>\$138,534,260</u>	<u>\$127,419,000</u>
<i>Additions:</i>					
Plant acquisitions and additions	15,322,651	18,569,081	12,792,161	7,123,335	9,004,302
Plant replacements	3,386,464	2,580,024	2,966,755	3,876,682	4,498,114
Gross additions and replacements	<u>18,709,115</u>	<u>21,149,105</u>	<u>15,758,916</u>	<u>11,000,017</u>	<u>13,502,416</u>
<i>Retirements:</i>					
Gross value of plant retired	1,670,115	1,483,727	1,613,062	1,832,488	2,387,156
Net additions to Property Account	<u>17,039,000</u>	<u>19,665,378</u>	<u>14,145,854</u>	<u>9,167,529</u>	<u>11,115,260</u>
Gross book value end of year	<u>\$198,552,021</u>	<u>\$181,513,021</u>	<u>\$161,847,643</u>	<u>\$147,701,789</u>	<u>\$138,534,260</u>



Southwestern Ontario

Showing facilities of
UNION GAS COMPANY OF CANADA, LIMITED
and UNITED GAS LIMITED
as at March 31, 1966

Pipeline systems

— Union Gas Company of Canada, Limited

— United Gas Limited

*Proposed pipelines are shown as broken lines in
the appropriate color*



Gas storage fields of the Company

— Portion of gas transmission facilities of
Trans-Canada Pipe Lines Limited and
The Consumers' Gas Company





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